

Following are the General Comments and Conclusions submitted by Judge Raymond Smith as part of his formal audit response:

**FISCAL YEAR 2003 EXIT CONFERENCE COMMENTS
KNOX COUNTY FISCAL COURT
RAYMOND C. SMITH, COUNTY JUDGE/EXECUTIVE
BRUCE A. MURPHY, DEPUTY JUDGE/EXECUTIVE
TAMMY WINE, TREASURER**


General Comments and Conclusions

In retrospect, we have given great thought and consideration of our answers to the questions raised by the Auditor of Public Accounts, as a result of receiving three years worth of audits during our fourth year in office. We wish to offer the following observations, as constructive criticism:

1. All elected officials and public employees are public servants, first and foremost and that includes the officers and employees of the Office of the Auditor of Public Accounts.
2. All of us have a right to expect fair and impartial audit opinion, not one issued in advance or biased by power politics; but based on factual information, not hearsay and innuendo.
3. From our standpoint, the Auditor of Public Accounts Office has far more egregious problems than those facing Knox County. Notwithstanding the fact the Auditor of Public Accounts bills the county at a rate of \$60.00 per hour per person, then GRACIOUSLY offers to split the cost, we are used to working for what we get. Our observations include two and three hour lunches, numerous examples of lost documents, repeatedly asking the same questions of the same people, arriving on the job at least an hour late and leaving an hour early and employees consistently complaining about their working environment.
4. The Office of the Auditor of Public Accounts initiated the Knox County Audit in a manner, closely akin to Nazi Storm Troopers assaulting a Jewish community in World War II Germany, despite the fact that we have bent over backwards to provide records requested and provide the best accommodations available for the audit staff.
5. This audit was conducted three years late, despite numerous attempts on our part to get Knox County's Audits complete and up-to-date. We strongly urge the Auditor of Public Accounts to either complete county audits on a timely basis or allow counties to employ outside sources. Dereliction of duty on the part of the Auditor of Public Accounts has cost Knox County and the citizens of the Commonwealth hundreds of thousands of dollars in excessive bond issuance costs due to the lack of a timely audit. Additionally, the county's bond company has indicated that they are refusing to renew the Treasurer's Bond unless they receive the completed audit reports for 2003-2005 by June 30, 2006, resulting in even greater financial exposure for the county.
6. An audit should be a constructive process in which the audited agency learns from the auditor. "Best Management" practices will enhance the efficiency of government, instead of becoming witch-hunts or fishing expeditions.

7. The Auditor of Public Accounts is not a licensed or practicing attorney. As a matter of fact, most of the individuals involved in our audit are not even CPAs. It has been suggested that some of the comments contained in the exit conference represent the practice of law without a license that should be prosecuted in the courts. This could be avoided by sticking to the facts; avoiding false assumptions of wrongdoing and avoiding moral judgments that are not based on factual evidence, law or properly promulgated regulations.
8. Records removed from the County Judge/Executive's Office and Treasurers Office were not returned and were found to be in an utter state of chaos when we recovered them from the Knox County Jail. There were several instances where documents were placed in the wrong box, the sequence of documents rearranged and detached from the supporting documents.

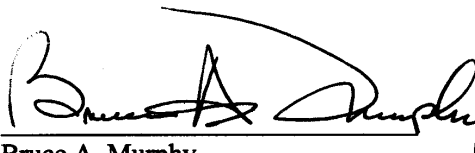
Respectfully submitted this 21st day of April 2006.



Raymond C. Smith
Knox County Judge/Executive



Tammy Wine
Knox County Treasurer



Bruce A. Murphy
Deputy Judge/Executive



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

May 17, 2006

The Honorable Raymond C. Smith
Knox County Judge/Executive
PO Box 173
Barbourville, KY 40906

Judge/Executive Smith:

At the conclusion of your response to the exit conference comments for the Knox County audit for the years ended June 30, 2003, 2004, and 2005, you provided General Comments and Conclusions that were not responsive to any specific audit finding, and therefore do not become part of the final audit report. We do wish to respond to your comments by way of this correspondence. The Auditor of Public Accounts (APA) takes its responsibility to perform its statutory duties very seriously and performs these duties in a professional, fair, and impartial manner.

The APA is issuing a report on the audits for the years ended June 30, 2003, June 30, 2004, and June 30, 2005. The delay in the FY 2003 and FY 2004 audits was due to certain audit findings in FY 2003, which were repeated in subsequent audit years.

The APA's hourly rate is \$33, of which the Fiscal Court is responsible for one-half the cost, or \$16.50 per hour, pursuant to KRS 43.070. The Fiscal Court is responsible to pay the full \$33 per hour for audit hours related to federal funds or component units. Your reference to a \$60 hourly rate is inaccurate.

The APA took the unusual action of issuing a subpoena to secure the county records due to credible information we had received from federal, state, and local officials that some records might be in jeopardy. The APA, after consultation with law enforcement agencies, requested that the Kentucky State Police accompany audit staff the day the subpoena was served due to prior published incidents involving you. The records were subsequently stored at the closed jail facility in Knox County. You and APA representatives agreed to this arrangement. No county records provided to the APA were removed from county property. When the APA turned over the county records to you on the last day of audit fieldwork, the records were neat, orderly, and in the condition in which they were originally received. We have photographic documentation of the final condition of the records prior to transfer, if you wish to examine it. The APA made an appointment with you to inspect the records when the key to the jail padlock was returned, but you declined. During the course of the audit the weld on the padlock had appeared to be compromised. This incident was reported to the appropriate law enforcement agency.



The Honorable Raymond C. Smith
Knox County Judge/Executive
May 17, 2006
Page 2

The APA has included recommendations to improve the financial management of Knox County Fiscal Court. The APA, pursuant to statutory authority and audit standards, reviewed applicable information and developed findings and recommendations, which are supported by facts. The APA received information from numerous sources during the course of this engagement. Auditing standards require government auditors to thoroughly follow up on allegations of fraud or improper expenditure of public funds. Each allegation was evaluated to determine if it was accurate based on documentation provided by the county government, bank officials, or state agencies.

The APA staff includes auditors who have the required educational requirements and receive annual required training. APA staff also includes attorneys and other professional administrative and management staff. The professional staff assigned to Knox County had over 79 years of professional experience. The Office of the Auditor of Public Accounts employs 118 professional staff that includes 31 Certified Public Accountants and 5 attorneys.

The APA staff was forced to work under less than ideal conditions during the audit, given work space in a jail cell in the closed jail of Knox County. The APA had suggested to Knox officials the possibility of working in the Circuit Court Clerk area, but this proposal was rejected. Lighting, heat, and confidentiality were all concerns in the jail work area. KRS 18A, applicable Kentucky Administrative Regulations, and the Fair Labor Standards Act regarding travel time govern the APA staff work hours. We would be happy to provide this information for review.

In summary, the APA stands by the audit findings and recommendations. In several instances the responses from Knox officials state that additional information is needed to respond to the findings. We have carefully reviewed those findings and provided additional information and additional review time. We recognize that the report contained dozens of findings, and we afforded the county approximately five weeks to respond. The County also submitted pages of documentation, which were carefully reviewed. Since these documents were already considered by the APA and are part of our workpapers, they are not published in the audit.

You made other comments so outrageous that we do not believe they should be dignified with a response.

The documents to support the findings questioned by Knox officials have been provided to the Fiscal Court under separate cover.

Sincerely,



Crit Luallen
Auditor of Public Accounts

c: Bruce Murphy, Knox County Deputy Judge/Executive
Tammy Wine, Knox County Treasurer